APPROACHES SPECIFIC TO CHANGES PERFORMED BY THE FISCAL POLICY WITHIN AFTER-COMMUNISM COUNTRIES, MEMBERS OF EU

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Abstract

Considering the current integration on the European unique market, the member states are liable to monitor the size of budgetary balance on current account and the public debt inventory, so that they will be able to comply with the restrictions stipulated in The Treaty of Maastricht (1992) and completed by The Settlement of Economic Steadiness and Growth (1997). The two agreements foresee special mechanisms in coordinating the fiscal and budgetary policies, assuming the drawing up of steadiness programs able to aim towards the re-equilibration on short term, or storing the budgetary surplus on long term. In this way, both the East-European states, currently candidates to Euro area, and the West-European states, before the adhesion to Monetary European Union, have started strategies of fiscal adjustment; these strategies consisted of measures able to ensure the necessary conditions on fulfilling the objectives imposed by means of nominal convergence criteria. In this paper, an analysis was proposed over both the changes carried out by the fiscal policy that was adopted by after-communism countries, members of European Union, and over the challenges created by fiscal policy, in conditions of experiencing results of the current economic crisis. The research method consists of storing, analyzing and comparing the data concerning the fiscal policy tools and the budgetary deficiency over EU member countries, provided by Eurostat database.

Key words: Fiscal Policy, Public Debt, The Governmental Income and Expense

INTRODUCTION

The macro-economical stability and success of economical growth depend crucially on implementing an adequate mix of fiscal and monetary policies. These ones, along with the adopted strategies, must see that the social objectives pursued within them are realized without resorting to persistent budgetary deficits that may, eventually, put in danger the macro-economical balance. We cannot talk enough of the state's need to have a consolidated healthy public finances system (Balcerowicz, 2006). For this reason, the purposes of the fiscal policy should allow all the economical agents, but also the population to benefit of the advantages a free market gives, to pursue realizing the EU fiscal policies' established objectives, but also be compliant with other EU policies, such as the work places' policy, the environmental policy etc.

The fiscal policies of the new EU members are determined both of the apparent problems of the society, which continues to confront with the costs associated to the transition, but also of the rather rigid and exigent norms concerning the EU fiscal policy. When establishing the fiscal policy, certain elements are taken into account: the objectives to modernize the countries' infrastructure, developing the environmental projects, long-term fiscal costs made to reform the health and retirement systems and the obligations to contribute to the EU budget. Furthermore, the problematic of the new EU members' fiscal policy can be fully understood by describing the main constraints of the transition period: inheriting a state of premature welfare, the free-rider behavior and fiscal evasion and the institutional and juridical fragility.

According to the Maastricht Treaty, the governmental deficit and public debt are limited to 3% and 60% of the GDP, for all the members of the EU Economic and Monetary Union. Tightly connected to this, there must also be assured the compliance with the Economical Stability and Growth Treaty. Furthermore, if the monetary policy is authorized to an independent central bank, such as the European Central Bank, the fiscal policy is constrained significantly, for the fact that besides assuring solid public finances, it must also support the ECB's objective to stabilize prices (Lungu, 2005).

From the EU experience, we may affirm that coordinating the fiscal policies towards the tax domain is necessary and must take into account the nature of the taxes (indirect, direct). In exchange, the fiscal coordination of the policies concerning allocation of the budgetary resources is not a must, because in the EU member countries the budgetary discipline is maintained to stabilize economy and unique currency, and the fiscal policy in the policies of redistributing the budgetary resources is limited by the level of the EU budget existing funds.

The present paper aims to offer an assembly image of the changes made by the fiscal policies adopted by the post-communist countries, also EU members (Bulgaria, the Czech Republic, Estonia, Latvia, Lithuania, Poland, Slovakia, Slovenia, Romania and Hungary), and also to present the fiscal aspects specific to these countries and the challenges they faced when integrating in the EU.

DOCUMENTATION AND METHOD USED

The analysis of the governmental income and expense of the post-communist countries, newly entered in the European Union

A close look over the income of each new member state, compared to the average of the EU-27 level, will unveil different ways in which they face the new EU member status and certain common characteristics, differentiating them from the old EU countries. The post-communist states hold 8 of the first 10 positions within the EU concerning the greatest share of indirect taxation. The analyzed data and the tendencies within the newly entered fiscal policies lead to a series of remarks, which we will present next.

The indirect taxes have the greatest contribution to the formation of the public financial income in almost all the new EU member states. For example, in Romania, the indirect taxes meant 44% of the total public income in 2006, while in Bulgaria, for the same period of time, the share was 55.27%. Exception- only two of the new EU member states, the Czech Republic, which in 2006 recorded a social contribution share in total income of 44.68% and Slovakia, which also has a great share of social contributions.

Almost all the post-communist countries have decreased the share of the direct taxes within the public income, for reasons such as:

- The relatively low level of economical development, which involves a reduced tax base, both for the company's profit and the individual's income
- The need to attract new productive investments, which determined low tax rates both for the companies and the individuals, sometimes even favoring the introduction of single rate tax systems;
- The direct taxes affect the international product and services' competition, while the VAT is refunded on export and has no effect on the local companies' capacity to export. Also, the direct taxes are more difficult to collect than the indirect ones;
- The motivational psychology of the individuals favor the indirect taxes compared to the direct ones, often perceived as a threat to personal welfare.

The new governments, who wanted to make visible a fundamental change concerning policies oriented more towards the market, easily adopted the reform of introducing single rate taxation. This was also motivated by the necessity to reduce the huge level of fiscal evasion, both legal and illegal. Therefore, seven of the ten countries adopted the single rate tax system, in 2009, the smallest rate being in Bulgaria – 10%, and the highest in Latvia- 23%. In the case of Romania, in the year 2005 a fiscal reform began, which aimed to replace the progressive tax system with the single rate one of 16%, still maintained even in present, and aims to stimulate the investments and capital accumulation. The signs gave by the single rate tax seem to indicate that it was well implemented. Nevertheless, the success in improving tax collection depends mostly on the complementary reforms of the social insurance contributions. The increased margin rates of salary taxes can be a major obstacle in improving tax collecting after the reform.

The previous experience shows that it is important for the decisional factor not to look only at the simple dichotomy between consume and income taxes, or to analyze only the specific characteristics of each tax in the local context. For example, the effect the consume taxes have on the economical efficiency depends on their characteristic of being mainly uniform or target specific goods. On the other hand, the effect the income taxes have on the work offer depends on their progression rate. This indicates that each country's decision concerning own tax model involves detailed technical analyses, but also a difficult political decision between a greater economical growth and an improved equity (OECD, 2007). In table 1, are presented the governmental incomes of several countries, on areas, as GDP percentage.

Table 1: The countries' governmental income(GDP percentage)

	2000	2001	2002	2003	2004	2005	2006	2007	2008
EU (27)	45.4	44.8	44.2	44.1	44.0	44.4	44.9	44.9	44.6
Bulgaria	42.2	40.9	39.5	40.0	41.3	41.2	39.5	41.5	39.1
Czech Republic	38.1	38.7	39.5	40.7	42.2	41.4	41.1	41.9	40.9
Estonia	35.9	34.7	36.0	36.5	35.6	35.2	36.3	37.4	37.1
Latvia	34.6	32.5	33.4	33.2	34.7	35.1	37.7	35.5	34.6
Lithuania	35.9	33.2	32.9	31.9	31.8	32.8	33.1	33.8	34.2
Poland	38.1	38.6	39.2	38.4	36.9	39.4	40.2	40.3	39.6
Romania	33.8	32.5	33.0	32.0	32.3	32.3	33.1	33.5	32.8
Slovenia	43.0	43.6	43.9	43.7	43.6	43.8	43.2	42.4	42.4
Slovakia	39.9	38.0	36.8	37.4	35.3	35.2	33.5	32.5	32.5
Hungary	43.8	43.2	42.3	42.2	42.3	42.2	42.6	44.8	45.5

Source: Eurostat, Economy and finance, Government statistics

Next, we will present the size and evolution of governmental expense of the new member states, in the context of the problems faced after EU integration. If, in the year 2006, the governmental expenses on the Eu-27 level recorded the lowest value of the last five years (46,3%), in the year 2008 these expenses were 46.87 of the GDP, increasing compared tot the last two years (see table 2). The most increased share was reported in 2003, at 47,3%.

Comparing the expenses as GDP shares, at the level of the post-communist countries we may observe relatively great differences. While in the case of Hungary, the governmental expenses are around the 50% GDP value, in most of the other countries this share was more close to 40%. The adequate size of the governmental expenses is, actually, difficult to determine because it depends on each country's social preferences.

Table 2: The countries' governmental expense (GDP percentage)

	2000	2001	2002	2003	2004	2005	2006	2007	2008
EU 27	45.2	46.2	46.7	47.3	46.9	46.9	46.3	45.7	46.8
Bulgaria	42.6	40.3	40.3	40.3	39.7	39.3	36.5	41.5	37.3
Czech Republic	41.8	44.4	46.3	47.3	45.1	45.0	43.7	42.5	42.9
Estonia	46.1	48.8	45.8	34.8	34.0	33.6	34.0	34.8	39.9
Latvia	37.3	34.6	35.6	34.8	35.8	35.6	38.2	35.9	38.8
Lithuania	39.1	36.8	34.7	33.2	33.3	33.3	33.6	34.8	37.4
Poland	41.1	43.8	44.2	44.6	42.6	43.4	43.9	42.2	43.3
Romania	38.5	36.0	35.0	33.5	33.5	33.5	35.3	36.0	38.4
Slovenia	46.7	47.6	46.3	46.4	45.8	45.2	44.5	42.4	44.2
Slovakia	42.2	44.5	45.0	40.1	37.6	38.0	36.9	34.4	34.8
Hungary	46.9	47.3	51.2	49.4	48.7	50.1	52.0	49.8	49.2

Source: Eurostat, Economy and finance, Government statistics

Schneider and Zapal (2006) divide the EU newly entered ex-communist countries into two categories: the ones with a "big government" and the ones with a "small government", varying with the level of public expenses. We may also develop this idea, by including the two countries that were accepted in the EU since 2007, Romania and Bulgaria.

As it may be seen in tables 1 and 2, there may be a direct connection between the size of the governmental expenses and the size of the fiscal deficits. We may conclude that these countries seem to be fitting in the "big government" category, confronting with difficulties in covering own income. On the other side, fiscal deficits attract public loans, which further on, lead to an eventual increase of the governmental expenses, especially by rates and repayment installments.

RESULTS AND DISCUSSIONS

The "small government" category countries have recorded average deficits, situated mostly under the 3% GDP value, by the year 2007. We mention that these have implemented single rate tax systems, which leads to the conclusion that they managed to have a better collection of budgetary income and, therefore, a better control over the budgetary deficit.

However, based on the financial and economical crisis, we may observe that, in the year 2008, a governmental deficit increase occurs for both government categories. Thus, of the second category countries, which have surpassed the 3% GDP limit, we may see Lithuania (-3.2%), Latvia (-4%), Romania (-5.4%). In addition, Estonia, which from 2002 to 2007 maintained in an increasing way the budgetary surplus (in the year 2007, this was 2.7% of the GDP), in 2008 it records a -3% deficit of GDP. The only country which since 2004 to 2008 maintained an exceeding budget situation was Bulgaria, this one increasing its surplus even based on the crisis which affected the year 2008, to +1.5% of the GDP.

Although the reduction of the public sector and governmental expenses in the non-crisis period generated positive effects, obvious for the economy of the new member states, threats still exist, and problems connected to the government's little power to influence the economy and society. All of these countries still need important investments in education, healthcare and infrastructure, which must be supported in order to comply with the European development standards. Their main objective is the economical growth and a better redistribution of income in benefit of the disfavored categories of the population. Since the beginning of the 90s, the moderate governmental investments were constantly increasing in the transition countries of the Eastern and Central Europe than in the EU (Gabor and Szapery, 2004). This is normal, as long as the marginal social productivity of the infrastructure investments will tend to increase in the less developed countries.

The analysis of the governmental income structure of the post-communist countries, members of the EU, indicates that the indirect taxes have the biggest contribution to the formation of public income in almost all of the EU newly entered post-communist states. Even more, in these countries, the need to attract new productive investments lead to more reduced direct taxes.

The adoption of the single rate tax, motivated by the necessity to reduce the relatively high level of the fiscal evasion, characterizes seven of these post-communist states (Estonia – 1994, Lithuania – 1994, Latvia – 1997, Slovakia – 2004, Romania – 2005, Bulgaria – 2008 and the Czech Republic – 2008), and seems to have been well integrated. Nevertheless, the success of improving tax collection greatly depends on making complementary reforms within the social insurance contributions' system. The decision of each country on the way to vary its own tax model takes into consideration more than the simple dichotomy between consumes and income taxes, and involves detailed technical analyses.

Moreover, the size of the governmental sector significantly varies from country to country, the extremes being Hungary - where the governmental expense represent almost 50% of the GDP and Slovakia, which in 2008 reported governmental expense of 33% of the GDP. The reduction of the public sector and governmental expenses generated positive effects, obvious for the economy of the new member states, but threats still exist concerning the government's power to reduce economy. All of these countries still need public services and important investments in order to reach the European standards for education, healthcare and infrastructure. For the following period, the new EU entered should maintain a relative increased level of the public investment expenses, taking into account their relatively low public capital stock.

CONCLUSIONS

Although most of the new member states have managed to respect the fiscal criteria of the Economical Stability and Growth Treaty, and their long-term fiscal viability was not threatened by the slow rate of last period economical growth, certain fiscal consolidations were needed to be made. In the year 2008, under the crisis conditions, five of the 10 countries surpassed the 3% GDP limit. The choice of postponing the integration in the Economic and Monetary Union for reasons of incompliance with the fiscal norms will make that reaching for the convergence criteria to be delayed, due to accumulating additional public debt and interest rates during the waiting period.

We may conclude that there certainly are rather big differences concerning the total fiscal burden of the new and old EU member states. By examining the general taxation as a GDP share, on the EU territory we may observe that the newly entered states are characterized by a more reduced tax rate than the old member states. Therefore, the reward for a better fiscal policy is greater than before, but the risks involved by an inadequate fiscal policy are even greater.

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